

MANATT, PHELPS & PHILLIPS, LLP
RONALD S. KATZ (State Bar No. 85713)
rkatz@manatt.com
ROBERT D. BECKER (State Bar No. 160648)
rbecker@manatt.com
GREG WARDER (State Bar No. 209966)
gwarder@manatt.com
1001 Page Mill Road, Building 2
Palo Alto, CA 94304-1006
Telephone: (650) 812-1300
Facsimile: (650) 213-0260

Attorneys for Plaintiff
VISTO CORPORATION

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

VISTO CORPORATION,

Plaintiff,

v.

SPROQIT TECHNOLOGIES, INC.,

Defendant.

Case No. C 04-0651 EMC

**VISTO'S REPLY BRIEF IN SUPPORT OF
MOTION TO DISMISS ENTIRE ACTION,
INCLUDING COUNTERCLAIMS**

FED. R. CIV. P. 12(b)(1), 41(a)(2)

Hearing:

Date: August 30, 2006

Time: 10:30 a.m.

Courtroom: C

I. INTRODUCTION

Sproqit has admitted that it is maintaining the instant litigation for the improper purpose of seeking an advisory opinion concerning the value of Sproqit's *unused* technology. Opposition at 3, 7, 10. Moreover, although Sproqit characterizes itself as a small company that Visto has picked on, Sproqit neglects to mention that *it* initiated this litigation by suing Visto in the U.S. District Court for the District of Minnesota over alleged tortious misconduct. *Sproqit Tech. Inc. v. Visto Corp.*, No. 04-CV-891(JMR/FLN), 2004 U.S. Dist. LEXIS 22156, *2-*3 (D. Minn. Nov. 2, 2004). In November 2004, the Minnesota court determined that it did not have personal

1 jurisdiction over Visto, and transferred the litigation, including the declaratory relief claims
2 concerning Visto's patents, to the instant Court, which now oversees the matter. *Id.* at *15.

3 In the intervening years, Sproqit has gone out of business, and no longer makes *any* use of
4 the technology accused of infringement in this case. *See* Motion at 3 (and exhibits cited therein);
5 *see also* Declaration of Gerald Trooien In Support of Sproqit's Opposition ("Trooien Decl."), ¶¶4,
6 6. Sproqit speculates about some future day, when, *assuming* it prevails in the instant litigation,
7 the company "will resume commercial operations." Trooien Decl., ¶6. However, Sproqit's use
8 of the future tense underscores that it has no current operations of any kind.

9 Accordingly, and sensibly, Visto seeks to drop its affirmative claims against Sproqit, and
10 will waive any damages for past infringement by Sproqit, which could not pay damages in any
11 event. These proposed actions eliminate any danger or threat to Sproqit, meaning that there is no
12 valid reason for this litigation to continue.

13 Sproqit's allegation that it "invested millions of dollars and years of effort to develop the
14 accused technology," Opposition at 3, is not a valid reason for the litigation to continue. This is
15 particularly so in light of Sproqit's refusal to make Mr. Trooien available to be deposed on his
16 declaration filed in support of Sproqit's Opposition. *See* Declaration of Greg T. Warder In
17 Support Of Visto's Reply Brief In Support Of Motion To Dismiss Entire Action, Including
18 Counterclaims at ¶¶ 2-8, Exs. 1 and 2. Nor is Sproqit's tough talk about how it is "not going to
19 walk away from that investment" without a determination whether Sproqit's technology infringes
20 Visto's patents a valid reason for continuing the litigation. Opposition at 3. On the contrary, it is
21 hard to imagine a clearer admission that Sproqit merely wants an advisory opinion from this
22 Court, although the Court cannot issue such opinions. *Arrowhead Indus. Water, Inc v.*
23 *Ecolochem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1988).

24 Put another way, there is no "cloud" or "*danse macabre*" or "Damoclean threat" here.
25 There is *nothing* here – no threat of litigation and no company or activity to challenge. The Court
26 should grant Visto's twin requests voluntarily to dismiss its affirmative claims and to dismiss
27 Sproqit's counterclaims for lack of jurisdiction.

II. ARGUMENT

A. This Court Can Dismiss Visto's Affirmative Claims Despite Sproqit's Counterclaims

In its opening papers, Visto explained that courts generally allow plaintiffs to dismiss their affirmative claims voluntarily under Federal Rule of Civil Procedure ("FRCP") 41(a)(2), and that this Court should follow that well-worn path in the present case because such a dismissal benefits, not prejudices, Sproqit. Motion at 3-5. Sproqit's fear of the re-filing of this litigation does not constitute a sufficient basis to deny Visto its right to dismiss its affirmative claims. *Read Corp. v. Bibco Equip. Co., Inc.*, 145 F.R.D. 288, 290 (D.N.H. 1993). If this lawsuit is dismissed without prejudice as Visto requests, then Sproqit has the option of re-filing if and when a justiciable threat to it arises *and* if it still exists.

In opposition, Sproqit argues that FRCP 41(a)(2) *prevents* Visto from voluntarily dismissing its affirmative claims so long as Sproqit keeps pursuing its declaratory relief counterclaims. Opposition at 3. Sproqit claims to find support for this argument in *SVG Lithography Sys., Inc. v. Ultratech Stepper, Inc.*, 334 F. Supp. 2d 21, 26 (D. Mass. 2004), which supposedly "hold[s] that infringement claims may not be dismissed under Rule 41(a)(2) where declaratory judgment counterclaims were pending." Opposition at 3. In reality, however, the *SVG* court *dismissed* both the patentee's affirmative claims and the accused infringer's declaratory relief counterclaims. *SVG*, 334 F. Supp. 2d at 26.

Sproqit is misreading the law. The FRCP 41(a)(2) "bar" applies only if a counterclaim lacks subject-matter jurisdiction in its own right. *McGraw-Edison Co. v. Preformed Line Prods. Co.*, 362 F.2d 339, 342 (9th Cir. 1966); *Bader v. Electronics for Imaging, Inc.*, 195 F.R.D. 659, 663-64 (N.D. Cal. 2000). Multiple cases establish that patent-related declaratory judgment counterclaims have an independent basis for subject-matter jurisdiction and may proceed even if the Court dismisses the patentee's affirmative claims under FRCP 41(a)(2). *Technimark Inc. v. Crellin, Inc.*, 14 F. Supp. 2d 762, 767 (M.D.N.C. 1998); *Bioxy, Inc. v. Birko Corp.*, 935 F. Supp.

737, 740 (E.D.N.C. 1996).¹ However, as noted in the following section, such cases may not proceed where there is no case or controversy left.

Under this relevant authority, the Court can properly grant Visto's request voluntarily to dismiss its affirmative claims against Sproqit despite the presence of Sproqit's counterclaims. As Visto stated in its opening papers, however, Visto seeks to dismiss its affirmative claims only if the Court also dismisses Sproqit's counterclaims.

B. The Court Lacks Subject-Matter Jurisdiction Over Sproqit's Counterclaims

In its opening papers, Visto explained that, in combination with Visto's concessions to Sproqit (dismissal of Visto's affirmative claims for patent infringement and waiver of damages for past infringement), Sproqit's cessation of the activity that allegedly infringed Visto's patents eliminates any actual case or controversy and strips this Court of subject-matter jurisdiction over Sproqit's declaratory relief counterclaims. Motion at 5-7. *See also Interdigital Tech. Corp. v. OKI Amer., Inc.*, 845 F. Supp. 276, 287 (E.D. Pa. 1994) (because defendant had abandoned its efforts toward making, selling, or using allegedly infringing products, and was not currently engaging in any activity directed toward possible infringement, dismissal of declaratory relief claims was proper); *Spectronics Corp. v. H.B. Fuller Co.*, 940 F.2d 631, 635-36 (Fed. Cir. 1991) (subject-matter jurisdiction over declaratory judgment action must exist at the time the complaint was filed and continue throughout the action), *abrogation on other grounds recognized by Liquid Dynamics Corp. v. Vaughn Co., Inc.*, 353 F.3d 1361, 1370-71 (Fed. Cir. 2004).

Furthermore, Visto cited two cases, *SVG*, 335 F. Supp. 2d 21, and *Hereema Marine Contractors v. Santa Fe Int'l Corp.*, 582 F. Supp. 445, 450 (C.D. Cal. 1984), that hold that an accused infringer which has ceased the allegedly infringing activity cannot perpetuate subject-matter jurisdiction by submitting an affidavit or other statement of general intent to resume the allegedly infringing activity. In determining that subject matter jurisdiction was absent for declaratory relief counterclaims, the *SVG* Court observed that a "'current desire' and amorphous

¹ *See also Halliburton Energy Servs., Inc. v. Weatherford Int'l, Inc.*, No. Civ.A.3:02-CV-1347-N, 2004 WL 2599454, *2 (N.D. Tex. 2004) (To the extent that [defendants] request declaratory judgment simply in order to limit a plaintiff's ability to move for dismissal of his claims, as expressly permitted under Rule 41, that would appear to be a disfavored use of the declaratory judgment process.") (case not reported in official case reporter).

1 ‘plans’ to use the [accused components] in future [products] . . . are not sufficiently concrete steps
 2 to support an Article III case or controversy.” *SVG*, 334 F. Supp. 2d at 25. The same can be said
 3 of Sproqit’s professed “plans” to resume commercial operations at some uncertain future date *if it*
 4 prevails in the present litigation.

5 “When the evidence does not unambiguously demonstrate that a plaintiff immediately
 6 intends to engage in the potentially infringing activity . . . declaratory relief is inappropriate.”
 7 *Hereema*, 582 F. Supp. at 450. *See also BP Chem., Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 980
 8 (Fed. Cir. 1993) (subject-matter jurisdiction for declaratory judgment claim requires present
 9 activity which could constitute infringement; a mere interest in practicing the allegedly infringing
 10 technology does not satisfy “actual controversy” requirement).

11 In opposition, instead of contending that it immediately intends to engage in activity
 12 potentially infringing Visto’s patents, Sproqit readily concedes that its business is over, and might
 13 never be revived: “Sproqit intends to fight Visto’s claims of infringement and vindicate its right
 14 to make, use, offer and sell the accused technology and products. This is the current focus of
 15 Sproqit’s business.” Trooien Decl., ¶4. “*Once this case is litigated to a successful conclusion*
 16 *Sproqit will resume commercial operations, marketing its technology and products as superior*
 17 *solutions that are free of any claim of infringement.*” *Id.*, ¶5 (emphasis added). Sproqit gives no
 18 details about how it could, or what it is doing to, get the business off the ground again.

19 These admissions actually support Visto’s contention that there is no present case or
 20 controversy. Sproqit’s business failed, presumably because of its own problems. Sproqit has no
 21 set plans to resurrect the failed business. Rather, Sproqit is waiting for an advisory opinion from
 22 this Court, which *might* indicate that Sproqit’s technology has value because it does not infringe
 23 Visto’s patents, before deciding what, if anything, to do.

24 In this fundamental way, Sproqit’s situation differs significantly from the potential
 25 infringers *on the verge of launching products* in several of the cases (*e.g.*, *Kos Pharm. v. Barr*
 26 *Labs., Inc.*, 242 F. Supp. 2d 311 (S.D.N.Y. 2003)) that Sproqit cites in its Opposition (at 7-10).
 27 Unlike those potential infringers and their adverse patentees, Sproqit has no brewing case or
 28

1 controversy with Visto. Sproqit's empty protestation that it has not abandoned the accused
2 technology (Opposition at 10) does not change this circumstance.

3 Furthermore, Sproqit's attempt to distinguish the instant case factually from *SVG*, where
4 the court dismissed declaratory relief counterclaims, is disingenuous. Sproqit claims that
5 Ultratech, the potential infringer in *SVG*, argued that it was developing a *new* "stepper" product
6 with an unknown relationship to the patents-in-suit, whereas Sproqit contends that it may
7 manufacture and market the same products that Visto accused of infringement in this case.
8 Opposition at 8. On the contrary, Ultratech maintained that "[t]he 'product' at issue here is the
9 mirror mount, *not* a new model of stepper into which that mount will be incorporated. *It is*
10 *undisputed that the mount at issue was made, used, and sold well before SVGL filed its motion to*
11 *dismiss...* [The potential infringer's] plans...evidence 'concrete steps' to resume the use of *the*
12 *very same mirror-mount* at issue in this case." *SVG*, 334 F. Supp. 2d at 25 (emphasis added).
13 These assertions fairly echo Sproqit's to the effect that the products accused of infringement in
14 this case will return to production in the future.

15 Notably, the *SVG* court found that Ultratech's cessation of the potentially infringing
16 activity ended the case or controversy: notwithstanding Ultratech's stated intention to resume use
17 of the accused products shortly, Ultratech's plans were not sufficiently "concrete." *SVG*, 334 F.
18 Supp. 2d at 25. Similarly, this Court should disregard Sproqit's vague and conditional plans to
19 resume use of the accused products some day, depending on how this litigation turns out. At this
20 time, such resumption of Sproqit's business is pure speculation. Thus, Sproqit has not
21 demonstrated the existence of an actual case or controversy with Visto.

22 **C. The Court Should Exercise Its Discretion To Decline Subject-Matter**
23 **Jurisdiction Here**

24 Visto and Sproqit agree that the Court has discretion to decline to exercise subject-matter
25 jurisdiction here, even if such jurisdiction exists. Motion at 7; Opposition at 11; See also
26 *Supermicro Computer, Inc. v. Digitechnic, S.A.*, 145 F. Supp. 2d 1147, 1150 (N.D. Cal. 2001)
27 (holding as well-settled district court's discretion to decline to hear declaratory relief claims even
28 if jurisdiction exists); *McGraw*, 362 F.2d at 343 ("a declaratory judgment may be refused where it

would serve no useful purpose”). Assuming *arguendo* that the Court determines that subject-matter jurisdiction exists, the Court should decline to exercise that jurisdiction because no useful purpose would be served by perpetuating this dead dispute.

Sproqit does not currently make, use, sell, offer to sell, or make any other use of the accused technology. Visto wishes to dismiss all of its affirmative claims, and will not seek damages for past infringement by Sproqit.

On the other hand, this Court has a full docket of cases where money or rights are at stake, with more cases coming each day. Visto respectfully suggests that the Court should spend its precious time and resources on those other cases, rather than this empty shell of a case.

III. CONCLUSION

For the foregoing reasons, Visto respectfully requests that the Court both dismiss Visto’s affirmative claims against Sproqit without prejudice, under FRCP 41(a)(2), and also dismiss without prejudice Sproqit’s counterclaims against Visto, under FRCP 12(b)(1). Visto seeks both aspects of that relief and expressly is not moving for partial relief.

Dated: August 16, 2006

MANATT, PHELPS & PHILLIPS, LLP

By: /s/ Ronald S. Katz
 Ronald S. Katz
Attorneys for Plaintiff
 VISTO CORPORATION

20163933.3